

## **Chapter 5**

# **Loan Origination Records and Promissory Notes**

### **Essential Loan Origination Record Questions**

- ☞ What does it mean to originate a loan?
- ☞ When is it appropriate to create a loan origination record?
- ☞ How do you create a loan origination record?
- ☞ What data elements are needed to create a loan origination record and where do they come from?
- ☞ What is a loan ID and what does it have to do with a loan origination record?
- ☞ How long can a school maintain loan origination records before submitting them to the Loan Origination Center?

### **Essential Promissory Note Questions**

- ☞ May a school print its own promissory note instead of using the Department's promissory note?
- ☞ Can the Loan Origination Center print promissory notes for schools?
- ☞ Is one promissory note used for a student who has both Direct Subsidized and Unsubsidized Loans, or are multiple promissory notes necessary?
- ☞ What do Option 1 and Option 2 schools do with promissory notes?
- ☞ Must the Loan Origination Center accept the promissory note before funds can be disbursed to the student?
- ☞ When must the school reprint a promissory note?
- ☞ When must the Loan Origination Center notify the school that a promissory note has been accepted or rejected? What causes the Loan Origination Center to reject a promissory note?

### **Essential Records**

The Loan Origination Center must have the following records and documents to “book” a loan:

- ☞ an accepted loan origination record
- ☞ an accepted promissory note
- ☞ an accepted first-disbursement record

These records and documents together form an official and binding obligation between the borrower and the federal government.

### Loan Origination Records

In the Direct Loan Program, originating a loan is comparable to certifying a student loan application under the FFEL Program. Data is collected from the borrower and either reported on a student loan application for certification (FFEL) or entered into a loan origination record (Direct Loans). In both cases, the data is the basis for making a loan. There are fewer data elements in Direct Loans than in FFEL because the Expected Family Contribution and Cost of Attendance do not have to be entered into the Direct Loan origination record.

The loan origination record

- ☞ is part of the borrower’s permanent loan record at the Department
- ☞ consists of necessary demographic, financial and statistical information
- ☞ is the initial record required for the Department to “book” a loan
- ☞ must be created while the borrower meets all loan eligibility requirements

The *loan origination date* is the date a school creates the electronic loan origination record. However, the *loan origination process* is not complete until the record is transmitted to and accepted by the Loan Origination Center.

### Creating Loan Origination Records

All schools will create loan origination records. These records are created electronically using either the software the Department provides or other software that meets the Department’s specifications.

## *Required Data Items*

Certain data items are required to establish the loan origination record. It is important to know these data items and where they come from. You may

- ☞ import some of these data items from the EDEXpress Institutional Student Information Record (ISIR) or packaging system database (which could contain data from the ISIR data base)
- ☞ import some of these data items from the school's database
- ☞ manually enter data from the Student Aid Report and other hard copy documents

The chart on page 5-4 describes the items required to complete loan origination records and identifies the items' possible sources. The key below identifies the codes used in the chart. Please note that the chart is for schools using the Direct Loan software on a PC exclusively or in combination with PC software and/or mainframe. Schools using a mainframe exclusively may want to devise their own chart.

### LOAN ORIGATION RECORD DATA ITEMS CHART

Use the following key:

- F = Data comes from the FAFSA
- I = Data comes from the school and may require manual entry
- G = Global parameters; the data is universally set by Direct Loan system set-ups and parameters
- S = System-generated; the Direct Loan software calculates the data items

**NOTE:** Some data items, such as the year in school, could come from the FAFSA or the school. For this chart, if the data item is on the FAFSA, it is coded "F."

| <b>Direct Loan Record Data Items</b>   |   |
|--|---|
| <b>Borrower/Student Data Items</b>   | <b>Promissory Note Data Items</b>                                     |
| F ☞ borrower's Social Security Number  | I • borrower signed promissory note flag                              |
| F ☞ borrower's name  | I • date school verified signed promissory note                       |
| F ☞ borrower's address   | G • promissory note print indicator                                   |
| F • borrower's home phone number   | S ☞ promissory note print sequence number                             |
| F • borrower's driver's license number and state   | S • batch number  |
| F ☞ borrower's date of birth   | S • promissory note status  |
| F ☞ borrower's citizenship status (including alien registration number if eligible noncitizen) | S • date promissory note printed                                      |
| F ☞ student's anticipated graduation date  | S • date/batch signed promissory note sent to Loan Origination Center |
| F ☞ student's year in school   | S • date Loan Origination Center confirms receipt of notes            |
| I • student's anticipated enrollment program start date  | I • altered note amount flag  |
| F ☞ student defaults on an education loan or owes repayment on a grant                         |   |
| I ☞ PLUS borrower defaults on an education loan or owes repayment on a grant                   |   |
| I • student's enrollment status  |   |
| I • student's enrollment status change date  |   |
| <b>General Loan Record Data Items</b>  | <b>Disbursement Data Items</b>  |
| I ☞ Loan type (Direct Subsidized Loan, Direct Unsubsidized Loan, Direct PLUS Loan)             | I • reason/date disbursements canceled                                |
| I ☞ requested loan amount (cannot be more than loan eligibility)                               | I • date disbursements made   |
| I ☞ loan amount approved (loan eligibility)  | I • refund code/date  |
| I ☞ user that created record   | G ☞ anticipated disbursement dates                                    |
| G ☞ school code number   | S ☞ gross anticipated disbursements                                   |
| G ☞ loan period start date   | S ☞ anticipated fee amounts   |
| G ☞ loan period end date   | S ☞ net anticipated disbursements                                     |
| S ☞ loan identifier  | S • date disbursement records sent to Loan Origination Center         |
| S ☞ loan year  | S • disbursement batch number and drawdown date                       |
| S ☞ loan sequence number   | S • disbursement reconciliation dates                                 |
| S • origination record transmit date   |   |
| S • anticipated loan fees  |   |
| S • anticipated gross loan amount  |   |
| S • anticipated net loan amount  |   |
| S • loan origination status  |   |
| S • origination date   |   |
| S • date/time record created   |   |
| I • loan cancellation code/date  |   |

☞ Required for transmitting loan origination record to the Loan Origination Center

### *Loan ID*

The loan ID is created at the time the loan origination record is created. The loan ID appears at the bottom of the promissory note and ties together the promissory note and loan origination record. The loan ID is comprised of the following elements taken from the origination record:

- ☞ borrower's Social Security Number
- ☞ loan type
- ☞ loan year
- ☞ school code
- ☞ loan sequence number

### **Sending Loan Records to the Loan Origination Center**

Once all required data items are complete, you must transmit the loan origination records to the Loan Origination Center. For Option 1 and Standard Origination schools, the Loan Origination Center must accept these records (and promissory notes) before it will send funds to the institution.

Option 2 schools may submit loan origination records before transmitting disbursement records and promissory notes or may submit all records simultaneously. (Note that if a school transmits actual disbursement records before loan origination records, the disbursement records will reject regardless of the school's loan origination option.)

- ☞ From an institutional management perspective, it is desirable to establish a regular schedule for submitting all records and documents to the Loan Origination Center.

### **Loan Origination Center Responses and Actions**

- ☞ The Loan Origination Center edits and validates electronically received loan origination data within one business day.
- ☞ The Loan Origination Center stores these records until the loan is booked or the record is canceled or archived.
- ☞ The Loan Origination Center assists schools in resolving problems with rejected loan records.

## **Rejected Loan Origination Records**

Some causes for rejected loan origination record are

- ☞ incomplete demographic information (name, address, driver's license number, alien registration number) for which the school must contact the borrower
- ☞ anticipated disbursement inconsistencies (fewer than two [unless your school is an experimental site school], not within the loan period, not in date order, or greater than the total loan amount approved)

## **Promissory Notes**

Schools that participate in the Federal Perkins Loan Program and the FFEL Program are accustomed to obtaining promissory notes from borrowers. As in both these programs, a Direct Loan borrower must always complete, sign, and date the promissory note before the loan is disbursed. Promissory notes can be distributed to borrowers anytime between determining loan eligibility and disbursement.

## **Printing Promissory Notes**

The Loan Origination Center prints and distributes promissory notes for Standard Origination schools. Option 1 and Option 2 schools can print their own promissory notes or have the Loan Origination Center print and distribute them.

### *Option 1 and Option 2 Schools*

- ☞ If you are at one of these schools, you may print a standard promissory note, using either
  - software or preprinted forms the Department provides, or
  - other software that prints the entire form (providing that the resulting promissory note meets Department specifications).
- ☞ If you develop your own promissory notes, you must have them *reviewed and approved* by the Department of Education.

- To have a promissory note reviewed, it should be sent to:

U.S. Department of Education  
ATTN: Joe Nordsieck  
ROB-3, Room 3108-A, Mail Stop 5387  
600 Independence Ave., S.W.  
Washington, D.C. 20202-5252

- When sending a promissory note for review, you should send an original promissory note that contains sample data.
- When creating your own promissory notes remember that the signature, interest rates, fee rates, or the language that explains the loan's terms and conditions cannot be changed.

- ☞ If you choose to include a school bar code on the Department's promissory notes, prior approval from ED is *not* required. However, the bar code may not be placed in the bottom margin of the note. The entire bottom margin is reserved by ED's processor.
- ☞ If you prefer, you may choose to have the Loan Origination Center print batches of promissory notes for your institution. However, the request must be made prior to the records being batched and a copy of the request must be entered into each student's record. Schools can request this service without changing their other loan origination option functions.
- ☞ The Direct Loan software automatically defaults to printing two copies of the promissory note. The borrower keeps one copy and signs and returns the other copy to the school for review and submission to the Loan Origination Center. Schools are not required to keep copies of promissory notes.
- ☞ You may print one promissory note for a Direct Subsidized Loan and one for a Direct Unsubsidized Loan or use one promissory note for both loans. There must be a separate promissory note for Direct PLUS Loans.

### Promissory Note Address Considerations

The parent's permanent address must appear on the Direct PLUS promissory note. However, the student's local or permanent address can appear on Direct Subsidized or Direct Unsubsidized promissory notes. Depending on when the promissory note is mailed (e.g. when school is in session or out of session), the school may use the borrower's local or permanent address.

## **Borrower Completion and Return**

The borrower verifies all preprinted information on the promissory note, and supplies any missing data, references, his/her signature, and the date. Any changes made to the preprinted information must be initialed by the borrower. If the borrower changes and initials a disbursement amount, the borrower must also change and initial the *total* amount to be disbursed. Otherwise the promissory note is invalid due to conflicting information.

The borrower retains a promissory note and returns a signed original to the school or to the Loan Origination Center depending on the school's loan origination option.

- ☞ Borrowers attending Standard Origination schools must return all promissory notes to the Loan Origination Center. Upon receipt, the Loan Origination Center will send these schools an electronic acknowledgment indicating whether the notes have been accepted or rejected.
- ☞ Borrowers attending Option 1 and Option 2 schools must return all promissory notes to the school. Upon receipt, the school reviews the promissory notes for completeness and accuracy, enters the promissory note data into their system and forwards the paper copy and paper and electronic manifests to the Loan Origination Center.

## **Sending Promissory Notes to the Loan Origination Center**

Borrowers attending schools using the Standard Origination Option send their promissory notes directly to the Loan Origination Center:

School Relations  
U.S. Department of Education  
Loan Origination Center  
P.O. Box 5692  
Montgomery, Alabama 36103-5692

This address is provided on the back of the promissory note. For these schools, promissory notes and loan origination records must be received and accepted by the Loan Origination Center before funds and an actual disbursement roster will be sent to the school for disbursement.

### *Option 1 and 2 Schools*

Schools using Origination Options 1 and 2 send their promissory notes to the Loan Origination Center:

For Regular Mail  
U.S. Department of Education

For Overnight Mail  
U.S. Department of Education



Loan Origination Center  
P.O. Box 5692  
Montgomery, AL 36103-5692

Loan Origination Center  
474 South Court Street, Suite 500  
Montgomery, AL 36104

- ☞ The school must mail a paper promissory note manifest along with completed promissory notes to the Loan Origination Center. (Many schools choose to send these to the Loan Origination Center via certified mail, return receipt requested, or by Express mail service.)
- ☞ The school must also transmit an electronic promissory note manifest to the Loan Origination Center.
- ☞ For Option 1 schools, valid promissory notes must be transmitted and accepted by the Loan Origination Center prior to receiving funds.
- ☞ For Option 2 schools, valid promissory notes do not have to be transmitted to, or accepted by, the Loan Origination Center before funds are requested or disbursed. However, the schools must have obtained a signed promissory note prior to disbursing funds.
- ☞ Schools are not required to keep a copy of promissory notes. However, they may want to do so until the promissory notes are accepted by the Loan Origination Center.

### Loan Origination Center Responses and Actions

- ☞ The Loan Origination Center will verify receipt of promissory notes against the paper and electronic manifests and return the paper manifest signed by a Loan Origination Center representative.
  - If an electronic manifest is present with the exact loan ID and print sequence number as each promissory note, you will receive an electronic acknowledgment in three business days.
  - If an exact match cannot occur, the acknowledgment may be delayed.
- ☞ The Loan Origination Center cannot electronically acknowledge receipt of paper promissory notes unless a valid origination record exists and you have transmitted an electronic promissory note manifest to the Loan Origination Center.
- ☞ The Loan Origination Center will review each promissory note to ensure it is complete.
- ☞ If the promissory note is **accepted**, this means that the Department accepts responsibility for the loan. The school may retain or destroy its copies of the accepted promissory notes.

- ☞ If the note is **incomplete** (the promissory note requires some alteration to be accepted), the Loan Origination Center returns it to the school (if the school is an Option 1 or Option 2 school) or to the borrower for completion. The Loan Origination Center will not send an electronic acknowledgment until the note is completed and returned to the Loan Origination Center. The school does not need to retransmit an electronic manifest for promissory notes in this status.
- ☞ If the note is **rejected**, the Loan Origination Center returns the original note to the school (Option 1 and 2 schools) for reissue. If the electronic manifest is present, the Loan Origination Center transmits a rejected electronic acknowledgment to the school in three business days.

Schools may want to maintain a log of promissory note rejections and use this information to improve the school's instructions to borrowers and its promissory note review process.

## **Rejected Promissory Note**

- ☞ Certain edits will cause the promissory note to be rejected. Promissory note edits and review guidelines will be provided to schools via a Direct Loan Bulletin. The main reasons for promissory note rejections are related to
- missing data (signature, Social Security Number, name address, phone number, driver's license, citizenship status, loan amount requested, references, employer information, loan period, or date of birth)
  - promissory note alterations without appropriate borrower initials
  - promissory note amount greater than approved loan amount or amount disbursed greater than promissory note amount (if the note is submitted after disbursement)
- ☞ Option 1 and Option 2 schools are not required to create a new promissory note if the amount of the loan decreases. If the loan amount increases after the promissory note has been printed, schools can
- originate a new loan and print a new promissory note covering the incremental difference, or
  - originate a new loan and prepare a new note based on the total loan amount. If a new note is prepared for the total loan amount, the old loan must be canceled.

See the chart below for what to do when loan amounts change.

| <b>Loan Amount Increases</b>  |  |
|---|--|
| <b>Situation</b>  | <b>Action</b>  |
| After the loan origination record is created and  | The approved loan amount may be increased without creating a new loan record or loan ID.   |
| Before the promissory note is printed or requested to be printed  | No action necessary  |
| After the promissory note is printed but before it is signed  | Must print a new promissory note   |
| After the promissory note is signed but before it is sent to the Loan Origination Center  | Must print a new promissory note and get it signed.  |
| <ul style="list-style-type: none"> <li>After the promissory note is sent to the Loan Origination Center but before loan funds are actually disbursed</li> </ul> | A new loan record and loan ID number must be created and a new promissory note must be printed (or requested to be printed) for either the incremental increase or the entire new loan amount. If a new record is created for the entire new loan amount, the prior loan record must be canceled.  |
| <ul style="list-style-type: none"> <li>After loan funds are disbursed</li> </ul>  | A new loan record and loan ID number must be created and a new promissory note must be printed (or requested to be printed). This is a new loan. There are now two loans unless the first loan is canceled.  |
| <b>Loan Amount Decreases/Stays the Same</b>   |  |
| <b>Situation</b>  | <b>Action</b>  |
| If the approved loan amount decreases or if the approved loan amount stays the same but there are other loan record changes                                     | No action is required unless the borrower requests a new note that reflects the actual amount of the loan. In that case, the school would create a new loan record (you must cancel the original loan record) and loan ID number and print a revised promissory note or request that a revised note be printed by the Loan Origination Center. |

## **Determining When to Begin the Loan Process (Option 1 and Option 2 Schools)**

Although you must decide when to begin loan origination, remember that you must create the loan origination record while the student is eligible. Keep in mind that you can create a loan origination record with an offered loan amount, as identified in the student's award notification, or with an accepted loan amount.

You should consider the following issues:

☞ Do you want to send promissory notes with your award notifications?

If you send award notices and promissory notes together, you will most likely produce promissory notes from offered loan amounts; therefore, you will need to create a loan origination record early in your process. If you decide to create a promissory note after borrowers accept their loan offers, you would create the loan record and the promissory note at a later date.

☞ Using the chart on page 5-13 can help your school determine how your process should operate. The chart demonstrates the pros and cons of creating the loan record and promissory note at different times.

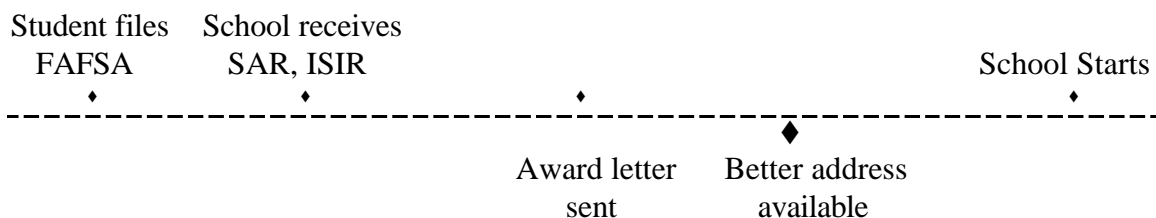
☞ During non-enrollment periods, you might mail your promissory notes separately from your award letter. However, once school starts, you may want to mail them together to speed the process.

☞ How will you handle students to whom you mail promissory notes but who fail to return them? Will you have duplicate notes available during the first days of school?

☞ You may reduce financial liability by minimizing the length of time you store signed notes before mailing them to the Loan Origination Center. Although no specific school security requirements for promissory notes exist, a school must safeguard all promissory notes in its possession. Submitting promissory notes frequently will help minimize their loss or destruction.

- Consider safeguarding promissory notes in the school's possession by placing them in a locked fireproof cabinet.
- Consider retaining a copy of each promissory note until the Loan Origination Center accepts it.
- Consider mailing your promissory notes in small batches via a traceable overnight carrier.

**Time Frame Comparison For  
Promissory Note and Loan Record Creation**



| SEASONS  | PROS  | CONS  |
|--|---|---|
| <b>SPRING</b><br><b>Prior to Academic Year (AY)</b><br><br>Send promissory note with award notice          | Better chance of borrower returning promissory note<br><br>Reduced time/cost if sent together<br><br>Client service benefit to receive full packet in the mail<br><br>Complete references | Likelihood of loan amount changing<br><br>Printing and mailing costs for students who do not attend<br><br>Maintenance of larger database for loan origination records that students may not accept or ever borrow. |
| <b>SUMMER</b><br><b>Prior to AY</b><br><br>Send promissory note<br><br>Award letter sent in spring         | Less chance of loan amount changing (more resource information)   | Greater address problem in summer<br><br>Lower likelihood of promissory note return due to bad addresses and separate mailing for note  |
| <b>FALL</b><br><b>Prior to AY</b><br><br>Make promissory note available<br><br>Award letter sent in spring | Greatest chance loan amount is accurate<br><br>Reduce printing of promissory notes for students not attending<br><br>Captive student audience   | Long lines for promissory note signing<br><br>Signing legal document on the spot<br><br>Refund detail may not be available  |

